

**REPORT OF THE AUDIT OF THE
PERRY COUNTY
FORMER SHERIFF'S SETTLEMENT -
2005 UNMINED COAL TAXES**

September 29, 2006



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PERRY COUNTY FORMER SHERIFF'S SETTLEMENT - 2005 UNMINED COAL TAXES

September 29, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Unmined Coal Taxes for former Perry County Sheriff as of September 29, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$1,182,072 for the districts for 2005 taxes, retaining commissions of \$34,026 to operate the Sheriff's office. The former Sheriff distributed taxes of \$1,145,558 to the districts for 2005 Taxes. Taxes of \$7 are due to the districts from the former Sheriff and refunds of \$24 are due to the former Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits
- The Former Sheriff's Office Lacked An Adequate Segregation Of Duties

Deposits:

The former Sheriff did not have a written agreement to protect deposits.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2005 UNMINED COAL TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMENDATIONS	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable Dennis P. Wooton, Former Perry County Sheriff

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the former Perry County Sheriff's Settlement - 2005 Unmined Coal Taxes as of September 29, 2006. This tax settlement is the responsibility of the former Perry County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Perry County Sheriff's unmined coal taxes charged, credited, and paid as of September 29, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 4, 2008 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable Dennis P. Wooton, Former Perry County Sheriff

Members of the Perry County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits
- The Former Sheriff's Office Lacked An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

June 4, 2008

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2005 UNMINED COAL TAXES

September 29, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Official Receipt	\$ 153,992	\$ 225,964	\$ 576,644	\$ 199,732
Additional Billings	9,630	14,112	36,093	12,491
Penalties	135	202	505	175
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	163,757	240,278	613,242	212,398
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	529	775	1,979	686
Discounts	3,008	4,412	11,263	3,901
Delinquent Real Estate	2,804	4,110	10,499	3,637
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	6,341	9,297	23,741	8,224
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Collected	157,416	230,981	589,501	204,174
Less: Commissions *	6,690	9,816	8,843	8,677
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due	150,726	221,165	580,658	195,497
Taxes Paid	150,398	220,686	579,402	195,072
Refunds (Current and Prior Year)	334	489	1,249	433
	<hr/>	<hr/>	<hr/>	<hr/>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	\$ (6)	\$ (10)	\$ 7	\$ (8)
	<hr/>	<hr/>	<hr/>	<hr/>

**

* and ** see following page.

The accompanying notes are an integral part of this financial statement.

PERRY COUNTY
DENNIS P. WOOTON, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2005 UNMINED COAL TAXES
September 29, 2006
(Continued)

* Commissions:

4.25% on \$592,571	\$ 25,184
1.5% on \$589,501	<u>8,842</u>
Total Commissions	<u>\$ 34,026</u>

** Special Taxing Districts:

Library District	\$ (5)
Health District	(3)
Extension District	<u>(2)</u>
Refunds Due Sheriff	<u>\$ (10)</u>

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT

September 29, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the depository institution did not have a written agreement with the former Sheriff securing the former Sheriff's interest in the surety bond provided as collateral.

PERRY COUNTY
NOTES TO FINANCIAL STATEMENT
September 29, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former Sheriff's deposits may not be returned. The former Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of September 29, 2006, all deposits were covered by FDIC insurance or a surety bond; however, the former Sheriff did not have a properly executed surety bond agreement.

Note 3. Tax Collection Period

Unmined Coal Taxes

The unmined coal tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 1, 2006 through September 29, 2006.

Note 4. Interest Income

The former Perry County Sheriff earned \$256 as interest income on 2005 unmined coal taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Perry County Sheriff collected \$ 962 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the former Sheriff's office.

Note 6. Advertising Costs And Fees

The former Perry County Sheriff collected \$45 of advertising costs and \$15 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees was used to operate the former Sheriff's office.

COMMENTS AND RECOMMENDATIONS

PERRY COUNTY
COMMENTS AND RECOMENDATIONS

September 29, 2006

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. Even though the former Sheriff obtained a written collateral security for pledges there was no written agreement between the former Sheriff and the depository institution, signed by both parties, securing the former Sheriff's interest in the surety bond provided as collateral. The former Sheriff should have entered into a written agreement with the depository institution to secure the former Sheriff's interest in the surety bond provided as collateral. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Former Sheriff's Response: I will suggest to the current administration to request a separate written collateral agreement for the surety bond.

INTERNAL CONTROL - REPORTABLE CONDITION/MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked An Adequate Segregation Of Duties

The internal control structure lacked an adequate segregation of duties because the same individual was responsible collecting tax receipts; preparing the daily deposits; and maintaining the cash receipt and disbursement ledgers. While it may not have been practical to segregate duties because of limited resources, the former Sheriff could have established compensating controls to address the lack of adequate segregation of duties. Such compensating controls could have included the former Sheriff periodically reviewing and verifying the work in question. To reduce the risk that errors or irregularities could occur and not be detected in a timely manner, the former Sheriff could have provided the oversight necessary to ensure adequate controls were appropriately designed and operating effectively over the cash collections, reconciliations, reporting and distribution processes.

Former Sheriff's Response: The tax division of the Perry Sheriffs office consisted of two personnel assigned to these duties with periodical oversight by the sheriff. This served multiple sheriffs over multiple years in an acceptable manner as determined by auditors.

Auditor's Reply: Auditors have included lack of segregation of duties in prior tax audits.

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties - Repeated

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive
Honorable Dennis P. Wooton, Former Perry County Sheriff
Honorable John Leslie Burgett, Perry County Sheriff
Members of the Perry County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Perry County Sheriff's Settlement - 2005 Unmined Coal Taxes as of September 29, 2006, and have issued our report thereon dated June 4, 2008. The former Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Perry County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked An Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Perry County Sheriff's Settlement - 2005 Taxes as of September 29, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

June 4, 2008

